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**INVEST IN YOUR COUNTRY
BY BUYING WAR BONDS**



L. R. B. & M. JOURNAL

VOLUME TWENTY-FOUR

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Anniversaries

By T. EDWARD ROSS

Celebrations of two anniversaries were held in the Philadelphia office during October. On October 7th, Mr. John Hood, Jr., completed thirty-five years in the service of the firm, and on October 17th, Mr. Joseph M. Pugh rounded out a half century in public accountancy.

Joseph M. Pugh

Mr. Pugh was born in Port Deposit, Maryland. He enjoyed the educational advantages offered by West Nottingham Academy, Swarthmore College Preparatory School and Swarthmore College.

Prior to entering the field of public accountancy he was office boy with Morris, Tasker & Co. for a period of about sixteen months. On October 17, 1892, he entered the employ of Heins, Whelen, Lybrand & Co. He was engaged as an office boy, but before he reported for duty an out-of-town engagement required the services of a junior. No one on the staff being available at the time, it was decided to assign the incoming recruit to the work. Not realizing the probability of sudden changes of plans in accountants' offices, he had failed to register his temporary abode with the firm. As the telephone was not in common use in residences at that period, a search party was organized to ascertain his whereabouts

and to carry the message that he was to meet Mr. Blank at a certain train in Broad Street Station at an early hour on Monday morning with sufficient personal equipment for an indefinite absence from home.

The messenger was not as successful as the chap who carried the message to Garcia, with the result that considerable heat had been generated by the time Mr. Pugh reported at 508 Walnut Street, too late for him to take the train. For a time it seemed as if a promising career in accountancy would be nipped in the bud, but, fortunately, such a catastrophe was averted. The appointment to the staff was not rescinded, so that the very valuable experience enjoyed by the office boys of those days was missed. For the office boy came under the direct supervision of the senior partner and was a sort of confidential secretary who was entrusted with many executive duties, all of which had to be performed with exactitude and promptness.

Mr. Pugh thus began his accountancy education in the University of Hard Knocks, where, as someone has said, the college yell is "Ouch" and the colors are black and blue. He also took a course in "Seeing America First," as many of his early assignments were in various sections

of the Eastern Seaboard, the deep South and the Middle West.

Organized public accountancy was in its infancy when Mr. Pugh entered upon what was to be his life work. The first national body had been organized in 1887 but was not very active, while the Pennsylvania Association was not founded until 1897, and the first Pennsylvania C. P. A. law was not enacted until 1899. He has been a participator, therefore, in the remarkable growth of the profession to its present-day prominence and importance.

The diversified practice of Heins, Whelen, Lybrand & Co., and of its successor firm, Heins, Lybrand & Co., afforded a wide training in the accounts of banks, investment bankers, coal mining, manufacturing, public institutions, and of many other lines of business and finance.

When the firm of Lybrand, Ross Bros. & Montgomery was formed as of January 1, 1898, Mr. Pugh officiated for a time as the sole senior, junior and office boy. The duties of the last two categories were soon assumed by others. Mr. Pugh passed the Pennsylvania C. P. A. examination in 1903, and received his certificate, Number 49, on January 4, 1904. He was admitted to partnership in 1904. Early in 1905 he joined both the National and State accountancy societies. Mr. Pugh has taken an active interest in the Pennsylvania Institute of Certified Public Accountants, and has served on many of its important

committees. He was Secretary for two years, 1908-1910, and President for two terms, 1917-1919. He has also been a member of several committees of the American Institute of Accountants.

By appointment of the Governor of Pennsylvania, Mr. Pugh became a member of The State Board for the Examination of Public Accountants in 1919 and continued as a member until 1931, serving for a time as its president.

Mr. Pugh has been an active participant in the growth of the firm from its organization nearly forty-five years ago, with its office suite of two rooms and a personnel of partners and staff aggregating six persons. With the three surviving founders he completes a quartet who have been in close association for over half a century.

To celebrate his golden anniversary his partners in Philadelphia arranged for a buffet luncheon served in the offices on Saturday, October 17th. Seven of the New York partners were in attendance, —Messrs. Lybrand, Staub, Dumbille, Henderson, Sinclair, Lenhart and Schaffer. All the Philadelphia staff who were not on duty out of the city were present, as well as some former members now in the naval and military services or with clients engaged in defense work. Invited guests present included Mrs. Pugh, Mrs. Adam A. Ross, Mrs. T. Edward Ross, Mrs. Fischer, Mrs. Metzler and Lucien B. Carpenter, Esq.

Colonel Montgomery found it impossible to be present, but contributed a libelous account of the early life of the guest of honor.

The decorations consisted of a cluster of fifty red roses, and a fine collection of War Savings Bond posters.

Mr. Pugh's Philadelphia partners presented him with a silver coffee pot made in London in 1761; his New York partners' gift was a fine gold watch, and that of the Philadelphia staff a handsome silver toilet set. These gifts were but very inadequate tokens of the love and esteem in which Mr. Pugh is held by all his associates, who wish him long life and every happiness.

John Hood, Jr.

On the completion of Mr. Hood's thirty-five years' association with the firm, his partners and the Philadelphia staff took the opportunity of expressing their esteem by extending greetings and good wishes and by presenting to him certain tangible tokens of their appreciation. On the morning of October 7th, he found upon his desk a vase containing thirty-five roses; also a gold duplex pen and pencil suitably engraved, a gold penknife and a beautiful collection of silver spoons and other gadgets. The use to which

the latter will be put is not clear to your reporter. A Seth Thomas chime clock (a reproduction of an Old English bracket clock), was the gift of the staff. From New York came a fine wallet and a set of pipes.

Mr. Hood was in the employ of one of our early clients, R. D. Wood & Co., from 1896 to 1906. His first experience with public accountancy was in the office of a well-known public accountant in Philadelphia, where he remained about a year and then resigned to accept a position with our firm. The Pennsylvania State Board of Examiners granted him his certificate, No. 110, on April 29, 1912. He was admitted to membership in The Pennsylvania Institute of Certified Public Accountants on January 27, 1913, and The American Institute of Accountants the same year. He became a member of the firm on January 1, 1918.

Mr. Hood has had a very important share, not only in the direction of the work in the Philadelphia office, but also in its administration. He has been an active member of the firm's executive committee for many years. He enjoys the confidence and respect of all his associates. May he continue his work until he, too, becomes a member of The Half Century Club.

*** INVEST IN AMERICA! BUY U. S. WAR SAVINGS BONDS ***

Accounting and Auditing for Government Contracts*

BY A. R. KASSANDER

(*New York Office*)

It is commonplace to state that as a result of our unprecedented production efforts calling for hitherto unthought of rates of production, coupled with numerous and often confusing Government regulations, the administrative departments of industry are faced with tremendous and new problems. Many of these problems fall upon the cost accountant for solution and with that responsibility comes outstanding opportunity for constructive service not only in handling current problems but in building permanent benefits for business and our profession.

I am not going to take up your time by describing the various types of contracts under which we are working and their provisions. Nor am I going to discuss the many laws and regulations which circumscribe our actions. I am sure all of you are at least as familiar with these as I am.

As to laws let it be sufficient to say that Uncle Sam is giving us a lot of business and is going to have a lot to say about how it is done and we don't always like it. As citizens

it is our right and duty to protest against discriminatory and unfair laws and regulations—that is, discriminatory and unfair to the United States, its economy and war effort—and to urge with all the vigor and influence at our command desirable and necessary changes. However, the approach to criticism should be national in scope, even to the possible detriment of our personal and business comfort and even health.

RENEGOTIATION AND COSTS

As to types of contracts, construction contracts are rapidly being completed and we are entering the full production stage of the war effort. The differences between cost-plus-fixed-fee (C P F F) and fixed-price supply contracts are narrowing rapidly to the point where the only difference is the documentation necessary to obtain reimbursement for funds expended. Both types of contracts are subject to renegotiation. Renegotiation procedures involve the determination of cost so that we can fairly make the statement that one of the basic accounting problems regardless of type of contract is that of determining the cost of production under the contract. That, most certainly, is

*A paper presented at a meeting of the Bridgeport Chapter of the National Association of Cost Accountants on October 15, 1942.

our job. It always has been our job but in the past we have sometimes been restricted in the scope of our activities and the job has not been done as well as we would have liked. We now have not only Government approval but Government demand that we do a first-rate job of cost accounting.

OTHER PROBLEMS FACED BY COST ACCOUNTANTS

Cost accountants are faced with a number of other problems no less important or difficult; jobs that are definitely in our sphere of activity and which are essential to the war effort and postwar health. On the manner in which we perform them will depend our personal prestige and the prestige of our profession.

1. *Inventory Control.* Industry's first job is production. Production necessitates having the material you need at the right place at the right time. Some companies have long had elaborate inventory systems; their main problem today is digesting the added load. Other companies have contented themselves with a minimum of records, often to the distress of the cost accountant. Here is your opportunity to install those improved methods you have long wished for. I urge you, make them so good that management will never want to give them up. You have WPB backing you up now. I seem to hear a murmur "too expensive." So is overtime expensive; so is train-

ing personnel; so are jigs and fixtures. "Yes," says management, "but these latter speed production." If it were not for the lowly stock clerk and his records, the newly trained machine hand on the graveyard shift using efficient tools would have nothing to produce.

2. *Prompt Reimbursement.* To preserve the liquidity of working capital so that we can meet pay rolls and pay for materials, we require the utmost in efficient systems of billing and documentation, so that we can secure prompt and full reimbursement for our expenditures. The Army has recently revised its field audit procedures to expedite reimbursement by substituting sampling and testing for detailed audits where the manufacturer's system of internal control is adequate. Here is a real incentive for some of you to achieve the improved accounting techniques you have long wished for. Again, make them so good that your managements will never want to give them up.

3. *Termination of Contracts.* Many of us look with some concern towards the day when our contracts are canceled and we are out on a limb with a heavy inventory position. Some of us have already had that experience as the progress of the war has rendered certain ordnance obsolete. It is highly desirable that you have complete integration between purchase orders, inventories and costs so that you can at any time estab-

lish the amount of expenditures applicable to specific contracts in order to be properly reimbursed and to be in a position to deliver the applicable inventories to the Government. The foregoing requirement even applies to the CPFF contractor operating a separate plant for CPFF contracts. He will most certainly be called upon to account for the material which has been entrusted to his care. Warning—look to your scrap and spoiled work records.

4. *Postwar Operation.* We are in a war to preserve a way of life. Included in that term is a system of healthy private enterprise. Therefore, it is not unpatriotic nor do I think it too soon to look to efficient operation after the war. In terms of cost accounting that means that we should not discard tested and tried criteria of measurement and control, even though they are ineffective under today's conditions and even though the figures appear ludicrous at times. I am thinking of such things as standard costs and budgets. These indices may well become the basing points from which we chart our postwar course and in the meantime serve to point out the undesirable conditions which should be corrected when we must again seek efficient production to hold our places in industry.

5. *Sound Accounting Principles.* Lastly and most importantly is the cost accountant's participation in the determination and classification

of his company's income account. The largest debit item in the usual industrial income statement is cost of sales. Correct cost of sales means correct cost accounting and the latter means good accounting. Don't, in the welter of rules and regulations, let us forget the principles of accounting.

We regularly treat certain transactions in corporate accounts in a different manner than in federal tax returns. Similarly, why abandon recognized principles of corporate accounting merely to conform to a statutory formula defining allowable costs?

TREASURY DECISION 5000

And that seems to bring us right up to T. D. 5000 and the "Green Book." While T. D. 5000 certainly requires the maintenance of detailed cost records, to my mind it has not changed cost accounting principles. It is among other things merely a formula for determining reimbursable items of cost or perhaps it is more correct to say unreimbursable items. It is a method for computing one factor in the selling price; the selling price consisting of allowable costs plus fixed fee or profit.

An unallowable item is not a deduction from cost because of T. D. 5000; on the contrary it is a deduction from income. Administrative expense is not suddenly a cost of production and an element in inventory valuation because T. D. 5000 recognizes it as a necessary and

reimbursable business expense to be considered in arriving at total amounts to be paid to the supplier.

T. D. 5000 is an important document. We need to be thoroughly familiar with it and the interpretation placed upon questionable points if we wish to avoid difficulty in documenting our requests for reimbursement. We also should remember when estimating or budgeting that its application will probably result in considerable dilution of the fixed fee or allowable profit in renegotiation. Having recognized the importance of T. D. 5000 let us refrain from going beyond its purpose and not think of it as a new authority on cost accounting.

PRESENT DAY PROBLEMS NOT NEW IN PRINCIPLE

I have outlined some half dozen fields of corporate activity where the cost accountant today is faced not only with serious problems but outstanding opportunities to demonstrate permanent value of at least some of his methods. Practically everything we are compelled to do these days could be found in practical application in some industry even before the war. In other words while all of us are doing a lot of new things practically no one is doing anything that has not been done before by someone, although in much less volume.

For example, we must have unit costs assembled to final contracts and tied into the accounts. Cer-

tainly there is nothing new about that concept.

P. R. P. almost makes compulsory perpetual inventory records in great detail; also sales and production forecasts by products; material requirements by classes of material. These latter have been recognized techniques of advanced budget procedure for many years.

Some companies for the first time find it necessary to maintain detailed records of inventory in hands of subcontractors. However, this problem has been met and solved in the past by many industries which regularly employ the services of outside converters.

Coordination of stores records and purchase commitments with specific contracts which is desirable to assure complete accountability has been practiced in the past in certain construction industries. Where separate storage spaces or specific earmarking of material for contracts is not practicable some companies use a separate stores ledger card for each stock item and for each contract.

The necessity for more accurate cost distribution between CPFF, fixed price work and commercial work has led, in certain cases, to the establishment of separate buildings or departments for certain classes of work. The advantages of such departmentalization has long been recognized in appropriate circumstances although not always carried out.

One result of the requirements of

accounting for Government contracts has been a greater effort to effect direct application of many cost items which are in fact direct costs but have in the past been thrown into overhead as the easiest way.

Although the advantages of unit fixed property ledgers have long been recognized their use has been considerably enlarged due to the necessity of detailed accounting for amortization of war facilities as well as government owned property.

WARTIME FINANCIAL STATEMENTS

Conditions created by the war program present a number of interesting problems in connection with the treatment of, and method of presentation in financial statements of, current transactions and their effect on financial position and results of operations. Within the time available to us here this evening I can only bring the problems to your attention without attempting a solution. Some of the problems raised are of themselves worthy of an evening's discussion. I am presenting these problems to you with the hope that they will provoke thought and discussion to the extent that they are applicable to your individual circumstances.

1. Shall inventories and advances received from the government be shown on the asset and liability sides of the balance sheet respectively or should only the net debit or credit position be set forth?

Should the treatment differ in the case of (a) fixed price contracts and (b) cost-plus-a-fixed-fee contracts?

2. The problem of determination of the overhead rate to be used for inventory valuation in view of the effect of abnormal conditions upon so-called normal overhead rates.

3. Treatment of overtime allowance, shift bonus, spoilage and scrap.

4. Determination of amounts and treatment of pre-production costs, such as special tools and fixtures, personnel training expenses and plant rearrangement.

5. Treatment of labor and material variances from standard costs.

6. Treatment of administrative expenses especially on CPFF contracts.

7. Consideration of period in which fixed fee should be taken up as income: (a) When receivable in proportion to percentage completion of contracts, and (b) when receivable on delivery of products.

8. Consideration of the activity factor in depreciation reserves.

9. Segregation of, and/or reserves for, disallowed and suspended items of cost.

10. Are deliveries with respect to CPFF contracts sales, with the fee to be treated as profit on sales, or should allowed cost be omitted entirely from the income account and the fee itself shown as gross income with deductions for disallowed items?

11. Problem of reserves for possible renegotiation of contracts.

12. Special reserves arising out of the war. The Committee on Accounting Procedure of the American Institute of Accountants has issued as Accounting Research Bulletin No. 13 a statement entitled "Accounting for Special Reserves Arising Out of the War." The statement lists as follows eleven purposes for which reserves may be provided, and is careful to point out that the list does not include all possible costs and losses arising out of the war.

(1) Accelerated depreciation of facilities as a result of intensive use and of operation by less experienced personnel.

(2) Accelerated obsolescence of facilities due to intensive research during the war in an effort to increase productive efficiency.

(3) Amortization of the cost of rearrangement and alteration of existing facilities which will probably be rearranged in the postwar period.

(4) Amortization of the cost of additional facilities acquired, the usefulness of which is expected to be substantially reduced at the termination of the war.

(5) Losses which may be sustained at the end of the war in the disposal of inventories useful only for war purposes, or in the adjustment of purchase commitments then open, including any amounts which may be paid for the cancellation of such commitments.

(6) Losses which may be sustained in the disposal of inventories not necessarily applicable to war production, due to decline in the price level, which, on the basis of past experience, usually follows a pronounced rise in prices.

(7) Repairs and maintenance deferred as a result of pressure for war production.

(8) Restoration or alteration of facilities to peacetime production at the end of the war, if it is reasonable to assume that such restoration or alteration will then be made.

(9) Separation allowances which may be paid to employees who are discharged at the termination of the war.

(10) Losses from destruction of property as a result of the action of armed forces or from seizure thereof by the enemy.

(11) Decline in the useful value of plant and equipment due to excess capacity resulting from war construction.

PROBLEMS OF AUDITING

Many auditing problems involve consideration of the identical factors which the company cost accountant must consider in his presentation of financial statements. Some of these factors have just been mentioned. They are all debatable, and subjects on which there can be sincere differences of opinion. To save time during the actual auditing

and to avoid possible serious changes in manner of presentation, it is most desirable that contact be maintained with the auditor throughout the year in order that questions of accounting principle may be agreed upon in advance and so that during the audit period itself the work may consist mostly of verification of the records.

So-called preliminary or interim work has long been a recognized device for relieving some of the year end work and facilitating or expediting completion of the audit. However, some companies have preferred to concentrate audit work in an intensive period at the year end in spite of the disadvantages of such procedure both from the standpoint of the auditor and his clients.

With increase in volume of transactions coupled with personnel shortage, both with respect to audit staffs and client's staff available for cooperation with the auditor, preliminary work has practically become a "must" if annual reports and statements are to be prepared in any sort of reasonable time.

Shortage of help and inexperienced help may result in considerable let down in observance of the established accounting procedures as well as in the accuracy of work done. Accounting executives are frequently too busy to maintain effective supervision. Interim work may bring undesirable conditions to light while there is still time to take up the slack and before there

occurs a complete breakdown of certain procedures.

Some of the audit procedures which may be the subject of interim work with beneficial results are:

- Review of internal check
- Tests of perpetual inventory records

- Confirmation of accounts receivable

- Examination of fixed asset accounts

and, as already mentioned, study, discussion and agreement as to treatment of new problems.

An intangible benefit which frequently results from interim work is a current familiarity on the part of the auditor with his client's affairs, which may save many hours and perhaps days of explanation during the busy audit period.

A special problem of auditing which confronts us today in some industries is that of expressing an opinion with respect to the amounts at which inventories are stated on the balance sheet. This problem arises from the fact that it is not possible to shut down operations at the year end for the purpose of taking physical inventory.

Many companies operate perpetual inventory systems which are coordinated with the accounts. Where those perpetual records are systematically checked throughout the year, there is normally little difficulty in establishing the substantial correctness of the inventory amount. However, there are some

companies where either the inventory records are designed solely for purposes of production control, without any coordination with the accounts, or where it is not customary physically to check the records during the year. In those situations it may be impossible to form an opinion as to the amounts of inventories without a complete physical inventory.

Here is another circumstance where operation under war conditions may be the impelling force leading to the installation of improved methods.

I have heard of cases where clients have insinuated that the independent public accountant was unpatriotic and noncooperative with the war effort in refusing to certify financial statements due to the lack of physical inventories. On the contrary, the independent accountant would be guilty of a breach of trust toward those who rely upon his opinion, were he to express an opinion if in fact there exists insufficient factual data as a basis therefor.

The development of adequate records capable of verification is the responsibility of the concern under audit. The auditor should use his ingenuity when the necessity arises to devise alternative auditing procedures where possible to meet unusual conditions. However, in the last analysis, the decision as to whether he can certify rests solely and absolutely with the auditor.

CONTINUANCE OF CERTAIN PREWAR MANAGEMENT METHODS

As a result of today's unusual problems, one is apt to hear opinions that standard cost systems and budgets cannot function under present conditions. On the contrary, it is my opinion that these tools of management are particularly useful at the present time. More than ever it is necessary for management to plan ahead. The premises upon which the plans are based are necessarily vague and uncertain. Frequent changes in planned business action are necessary. It is imperative that management be informed promptly and accurately as to the effect of changed conditions; standard costs and budgets do just that. They do not control but they disclose what is out of control and how much. What to do about it is another problem. Sometimes nothing can be done, at other times a great deal can be done. It is probable that little will be done, and that little be done ineffectually, if management is inadequately informed.

In addition to planning today's activities and measuring performance in relation to plans, I think it is important to retain a picture of the relationship of today's performance to more normal conditions. Over a period of years every business has built up a set of concepts covering normal and generally satisfactory operating factors. These factors include the relation-

ships of the principal cost components to total production costs; the rate of the several types of overhead expenses in relation to various levels of activity; the rate of administrative expenses which can be supported by price structures prevalent in the industry, etc. In some businesses these concepts may be principally in what we might call the "operating sense" of the management. In other and more highly organized businesses, these factors are reflected in formal standard cost and budget systems.

These concepts learned in the school of experience are badly twisted today. Some overhead rates are down as a result of the increased volume—more of them are up, in spite of increased volume, due to increased overtime, training expenses, special tools, plant rearrangement, etc. Some labor costs are up due to green help, rigid inspection, etc.; others are down due to improved machinery made possible by the volume. Wide use of subcontracting has distorted the ratio of material to labor and decreased the labor base over which overhead is absorbed, and so it goes.

It is my opinion that, while we must be realistic and plan current operations in the light of conditions as we find them, we should not discard the old sign posts, but should continue to use them as a basis of measurement of how far we have drifted from good operation (that is, good in normal times), and to

guide us at the proper time in restoring desirable conditions.

Those of you who are conducting commercial operations along with government orders should be careful not to abandon established price structures that have stood the test of time simply because present costs tell a different story for the time being. Here again, comparison with prewar standards constantly brings to our attention the extent to which abnormal conditions have changed what we had come to consider normal performance. In other words, instead of abandoning our standard costs, perhaps we should expand our methods to include a double set of standards—one which we try to meet today, and a second representing a return to normal conditions.

I do not think that full compliance with all-out production requirements, irrespective of excessive costs and absence of profits, need prevent business from knowing its costs and preparing to correct undesirable conditions. Survival in the future may depend on knowledge of costs today and readiness to correct them at the appropriate time.

True to my promise made at the beginning of this talk, I do not think I have answered any of the troublesome questions with which you are all faced. I hope I have thrown out a few thoughts which will set off lively discussion in the time still at our disposal this evening and possibly at some of your future gatherings.

The L. R. B. & M. Journal

Published by Lybrand, Ross Bros. & Montgomery, for free distribution to members and employees of the firm.

The purpose of this journal is to communicate to every member of the staff and office plans and accomplishments of the firm; to provide a medium for the exchange of suggestions and ideas for improvement; to encourage and maintain a proper spirit of cooperation and interest, and to help in the solution of common problems.

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Our 45th Anniversary

January 1, 1943, marks the Forty-fifth Anniversary of the founding of the firm of Lybrand, Ross Bros. & Montgomery. It is a sort of half-way mark from which we may take both a retrospective and a prospective look.

When the firm had completed its first quarter-century of practice, a special number of the L. R. B. & M. JOURNAL was issued to commemorate the event and to record, for

both those who had shared in the work of the first twenty-five years and those who would carry on the work of the firm in later years, the history of our firm, biographical sketches of its founders and of those who had been called on over the years to join them in discharging its responsibilities to an ever increasing clientele, the contributions which members of the firm had made in various ways to the broader interests of the accounting profession, and

a description of some of the more important services which had been rendered by the firm in the course of its quarter-century of practice.

On the occasion of the thirty-fifth anniversary a different kind of commemorative number was issued. A number of outstanding clients graciously contributed articles from the pens of their executives, which reviewed significant developments in the business and financial world during the preceding generation. They have permanent value as a record of the period to which they relate and are well worth rereading at this time.

The fortieth anniversary brought forth another commemorative issue which consisted of contributions by a number of the members of the firm. The burden of that work was borne by Mr. Ross, who wrote a group of articles which presented various phases of the work and development of our firm during the preceding four decades. His historical and biographical sketches were supplemented by a number of technical articles, each written by a different partner, which dealt with accounting procedures and problems in various fields of business.

And now, as our firm has completed forty-five years of service to an ever-widening circle of clients, engaged in business of most varied kinds, with the operations of many of them being not only nation-wide but world-wide in scope, we take a hasty look backward and an earnest

look forward. With the pressure of these war days upon us, we are not taking the time or expending the effort to prepare a special issue of our JOURNAL to commemorate the passing of the forty-fifth milestone. We do, however, wish to make a few brief observations.

As indicated in the article written by our good friend, Mr. Samuel W. Reyburn, for the Thirty-fifth Anniversary number of the L. R. B. & M. JOURNAL, the year 1898 (in which our firm was founded) marked a significant turning point in the economic and business life of our country. He related this in some measure to the Spanish-American War and the development of a wider world outlook and its reflex influence on our domestic development.

It is to be noted that the forty-five years of our firm's existence embrace three wars in which our country has been engaged, viz., the Spanish-American, World War I, and World War II in which we are engaged at this time. In the intervals of peace we have had every variety of economic experience: normal prosperity, boom, depression, and the abnormal economic stimulus of war production. During this entire period the accountancy profession, which was still in a most modest state of development in 1898, has moved steadily forward.

Ever increasing responsibilities have been placed upon it by the calls for service to the business and

financial world, the expressed need of the investor and credit grantor for the independent review by, and opinion of, the certified public accountant on financial statements, the special opportunity to render service in tax matters for which the accountant is peculiarly fitted, the enactment of the federal securities laws and similar legislation, and by other developments too numerous to mention. The accountant is the last one to claim that in responding to these calls perfection has been attained. Indeed, when it is contemplated over how relatively short a period the development of the accountancy profession has extended, it seems remarkable that the profession has met as effectively as it has the ever increasing demands of business and finance. It is gratifying to see the recognition which this young profession has received at the hands of the older professions of law and engineering with which it works so closely for many mutual clients.

Throughout this period of the profession's development, our firm has sought to make its contribution, not merely by serving well its clients, and in attaining the respect of investor and credit grantor for its integrity and independence, but also by participating in the building of a broad foundation for the profession through the development of accountancy education, the writing of a literature for the profession in accounting, auditing and taxation, the effective functioning of strong

professional societies, both state and national, and the development of high ethical standards of professional conduct.

For the future, we look forward not only to the celebration of the fiftieth anniversary of the founding of our firm a short five years hence, when doubtless a comprehensive historical survey of a half century of practice by the firm will be written for its archives, but to the continuance of an organization which will be able to measure up to every demand which the profession will be called on to meet in coming years. It would be ungracious to omit acknowledgement of the indebtedness which our firm feels to the members of its farflung organization for the faithfulness with which they have "carried on" through the years. The strength of the firm, and its ability to render effective service to its clients and to the business public in the broader sense are due in large measure to the capable and efficient staff at each of its offices in the United States and Europe and their hearty cooperation with the members of the firm in carrying out its engagements.

In concluding this rather cursory commentary on the forty-five years of existence which our firm has now completed, it is appropriate to call attention to the leading article in this issue, which refers to the celebration of the completion of long periods of professional practice by

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Notes

The sad news has come to us that Lieutenant Eugene F. Jehlik, a member of our Chicago staff, has been killed in action. He was graduated from Oak Park High School and the University of Illinois in June, 1940, and joined our organization later in that year.

He was a cavalry reserve officer, and was called to active duty in March, 1941. At the time of his death, November 28, 1942, he was a platoon leader of an American tank unit defending a position in North Africa.

Lieutenant Jehlik called at our Chicago office in 1942 before leaving for overseas, and we subsequently heard from him from Northern Ireland. He was a fine young man, with a most pleasing personality, and we are deeply grieved at his death.

The following members of the L. R. B. & M. organization have joined the country's armed forces since the publication of the November, 1942 issue of the L. R. B. & M. JOURNAL:

Baltimore:

Arthur W. Thompson

Boston:

James E. Steffy

Howard E. Thunberg

Chicago:

Allan J. Gerken

James Hooper

George B. Vasen

Cincinnati:

Charles O. Bayne

Robert G. Knauff

Floyd Kolb

Cleveland:

R. Eugene May

Dallas:

E. Burl Austin

Leon E. Smith

Detroit:

Norman A. Bolz

Stanley G. Janson

Angelo J. Metropole

Houston:

Jesse D. Reynolds

Los Angeles:

Guy M. Evans

James H. Pittenger

New York:

Dante Caimi

James G. Colgan

Henry C. Elfers

John G. Gaisser

Robert L. Hartlieb

Fred W. Hunold

Owen W. Jaeger

Chas. P. Koehler, Jr.

Felix R. Konkle

Paul F. Mason

Joseph M. Mayer

Harold J. McDonald

Wilfrid C. McLaughlin, Jr.

Joseph Murphy

Robert F. Musser

Henry S. Sekerak

Edward B. Taylor

Irving R. Warshaw

Philadelphia:

John S. Baxter
Walter S. Bernheimer
Walter T. Brown
Donald H. Grim
Robert A. Knecht
Lloyd S. Mortimer
Charles C. Ross
Louis J. Stow
John E. Warren

Pittsburgh:

James Grier Marks, Jr.

Rockford:

Ralph Call
Joseph Garrity
Frederick S. Winn

San Francisco:

George T. Burgess
Preston McKinney, Jr.
William S. Mitchell, Jr.

Bulletin No. 62 of the Bureau of Economic and Business Research, recently published by the University of Illinois under the title of *Directory of Early American Public Accountants*, contains in its preface the following paragraph which makes mention of our firm:

This was the era (1880-1899) in which many important accounting firms of today were founded. Some of these can be traced through the directories to the present. For example:

John Heins, 1879-89
Heins & Whelen, 1890-92
Heins, Whelen, Lybrand & Co., 1893-96
Heins, Lybrand & Co., 1897-98
Lybrand, Ross Bros. & Montgomery, 1898-
John Heins & Co., 1898-

It would be interesting indeed if more information were available about the evo-

lution of specific firms and the changes that have taken place in accounting practices under the observation of their partners.

In the concluding paragraph of the preface, the author of the Bulletin, Professor A. C. Littleton, mentions Mr. Ross as one of "the pioneers of the profession whose familiarity with the names of early accountants has been especially helpful."

A new war activities program of the American Institute of Accountants was described in the December issue of *The Journal of Accountancy*. Six committees have been appointed by the president of the Institute to assist in the execution of this program and to continue the work of the former committee on war activities. One of the new committees is that on Methods of Limiting War Profits and another is that on Government Audit of Contractors' Costs. Mr. Sinclair was appointed a member of the former, and Mr. Russell a member of the latter, committee.

The fifty-sixth annual meeting of the Institute is to be held in New York City, October 18-21, 1943. Mr. Jennings is a member of the Committee on Meetings, and Mr. Russell a member of the Committee on Technical Sessions which, together with the Committee on Credentials, have been appointed to arrange the details of the annual meeting.

Members of our firm are serving on committees of the American Institute of Accountants during its 1942-43 year, as follows:

Colonel Montgomery,
Executive Committee

Mr. Staub,
Committee on Accounting Procedure
(Chairman)
Committee on Terminology

Mr. Sweet,
Committee on Cooperation with Securities and Exchange Commission

Mr. Sinclair,
Committee on Cooperation with Stock Exchanges

Mr. Lenhart,
Committee on Auditing Procedure
Committee on Accountants' Liability and Liability Insurance (Chairman)

Mr. Bell,
Committee on Cooperation with Controllers' Congress

Mr. Griffith,
Committee on State Legislation

Mr. Hunter,
Committee on Publication

Members of the L. R. B. & M. staff at various offices are serving on Institute committees, as follows:

Mr. E. P. Ellenberger (Cleveland),
Committee on Cooperation with Credit Men
Committee on Natural Business Year

Mr. Arno R. Kassander (New York),
Committee on Accounting Machinery

Mr. Carl W. Lutz (Chicago),
Committee on State Legislation

Mr. Staub's article on "The Difficulties of Measuring Profits in a War Time Economy," which originally appeared in *Dun's Review*, has been reprinted by the Charles R. Hadley Company in its monthly publication, *Profit*, for September and October, 1942. The following comment by the publisher appeared with the article:

This excellent and very timely discussion appeared in the July, 1942, issue of *Dun's Review*, published monthly by Dun & Bradstreet, Inc., New York. Walter A. Staub, the author, is the Chairman of the Committee on Accounting Procedure of the American Institute of Accountants. The Committee has reported upon war-time reserves (A. I. A. Accounting Research Bulletin 13) and Mr. Staub presented this subject before the 1942 Financial Division Conference of the American Management Association (Financial Management Series 69).

On December 17 Mr. Staub addressed a luncheon meeting of the Rotary Club of Rockford, Illinois, on "Taxes in Wartime."

Mr. Russell addressed the Rockford (Ill.) Chapter of the National Association of Cost Accountants on November 19 on "Accounting Problems Under War Conditions."

Mr. Dennis is serving as president of the Optimist Club in Cincinnati. This is part of an international organization whose work is primarily for underprivileged boys.

Mr. Edward J. Barr, of our Detroit staff, led a round table discussion on the "Green Book" at the October 5 meeting of the Detroit Chapter of the N. A. C. A.

Mr. John W. Conrad, manager of our Rockford office, discussed the Illinois Chamber of Commerce tax modernization program before the Rockford Business and Professional Woman's Club on November 24.

The Rockford office staff held a series of tax and audit conferences each Saturday during November and December. These meetings, with their review and discussion of the week's problems, form an important part of the staff training program of that office.

A. R. Kassander of our New York staff, addressed the Buffalo Chapter of the National Association of Cost Accountants, on November 19, on the subject "Standard Costs and Budgets—How Do They Control?"

Mr. Griffith has been elected chairman of the Washington State Accountancy Examining Committee.

Mr. H. C. Hawes served as a captain in the Industrial Division of The Community Fund of Chicago in its recent drive for

\$4,000,000 for social service agencies in that city. He is also a member of the Accounting, Audit and Budgetary Control Committee of the Chicago Association of Commerce.

Committees of the Illinois Society of Certified Public Accountants are being served by our Chicago office as follows:

Mr. H. L. Miller, Vice-Chairman, Committee on the Natural Business Year

Mr. P. M. Armitage, Vice-Chairman, Subcommittee on Vocational Education

Mr. W. Merkle, Membership Committee

Mr. C. W. Lutz, Chairman, Committee on Legislation; Member, Committee on Nominations

Mr. R. S. Warner, manager of our St. Louis office, is serving on the panel of supervising auditors attached to the Navy Department. He is a member of council and chairman of the Technical Committee of the Missouri Society of Certified Public Accountants, and a director of the St. Louis Chapter of the National Association of Cost Accountants.

At the annual meeting of the National Tax Association, held in Cincinnati in October, Mr. E. E. Wakefield, of our Boston staff, was elected a member of the Association's Executive Committee.

Mr. Claude Hupp, of our Louisville staff, acted as discussion leader at the November meeting of the Louisville (Ky.) Control of the Controllors Institute of America. The discussion pertained to the

Revenue Act of 1942. He is on the tax panel of the Kentucky Society of Certified Public Accountants, and on December 7 gave a tax talk to the Kentucky Ice Manufacturers Association.

Our 45th Anniversary

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Mr. Pugh and Mr. Hood. Each of them has had a noteworthy part in the work of the firm.

The publication in the L. R. B. & M. JOURNAL of the report of these celebrations has been delayed by reason of the November issue having been devoted entirely to a consideration of the 1942 Revenue Act. However, the report is perhaps, even more appropriate at this time.

It is also appropriate to recognize in this reminiscent editorial the service of Miss Lilian A. Ross, with our firm since its organization on

January 1, 1898. A reception was tendered her on December 31, 1942, at the Philadelphia office, the scene of her activities during this long time. When Miss Ross returned from attending to some business at the bank, she found her desk covered with flowers. She received from the Philadelphia partners a gift of an antique silver coffee pot, and the staff presented her with a string of pearls. Miss Ross had been a member of the office force of the firm of Heins, Lybrand & Co. prior to the formation of our own firm.

FOR VICTORY



**BUY
UNITED
STATES
WAR
BONDS
STAMPS**

Lybrand, Ross Bros. & Montgomery

Offices

<i>Cities</i>	<i>Addresses</i>
NEW YORK:	Downtown, 90 Broad Street Uptown, 1 East 44th Street
PHILADELPHIA	Packard Building
CHICAGO	231 South LaSalle Street
BOSTON	80 Federal Street
BALTIMORE	First National Bank Building
WASHINGTON	Investment Building
PITTSBURGH	Union Bank Building
DETROIT	Book Building
CLEVELAND	Midland Building
CINCINNATI	Carew Tower
LOUISVILLE	Heyburn Building
SAINT LOUIS	411 North Seventh Street
ROCKFORD	321 West State Street
ATLANTA	Healey Building
DALLAS	First National Bank Building
HOUSTON	Shell Building
SAN FRANCISCO	2 Pine Street
LOS ANGELES	510 South Spring Street
SEATTLE	Skinner Building

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